ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

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HIGHLIGHTS OF BUSINESS IN AUGUST

The usual summer slump in business conditions was hardly in evidence this year. Except for closedowns for vacations, there was little interruption in industrial activity with many basic industries such as steel, copper, zinc, and cement having more than enough orders to operate at or near capacity levels. Considerable activity was also apparent in other sectors with railroad carloadings at high levels, department store sales well above year-ago levels, and bumper harvests expected of most farm crops.

Accompanying this continued high level of activity was a further improvement in the employment picture. Total civilian employment in August reached a record high of 65.5 million, whereas unemployment declined 250,000 to 2.2 million, the lowest since November, 1953.

Construction at New Peak

Outlays for new construction continued at record levels in August, reaching a new peak of $4.0 billion for the month. This is 8 percent higher than the previous August high attained last year though it represents only a slight (1 percent) advance from the previous month's level. As in previous months, private construction outlays led the advance with unseasonably sharp increases in store and other merchantile building activity over July. On the other hand, residential building declined counterseasonally, reflecting the reduced number of housing starts during the past two months.

Construction activity for the first eight months of this year reached an all-time high of $27.1 billion, 13 percent higher than the previous record set last year. Private homebuilding, an upsurge in the construction of stores, restaurants, and garages, and increased military building have been the main factors in the current advance.

Inventory Accumulation Moderate

Notwithstanding the record production of the past few months, inventories have yet to give any indication of mounting rapidly, according to the most recent figures available. At $43.9 billion after seasonal adjustment, the value of inventories on the shelves of manufacturers at the beginning of August was slightly above the preceding month's level and only 2 percent above the 1954 low last September.

Retail inventories, on the other hand, have been increasing somewhat. During July retailers' stocks rose $200 million to $23.4 billion after seasonal adjustments, $900 million more than the value of retailers' inventories last July.

Credit Conditions Tighten

With business loans rising steadily and consumer debt reaching new peaks, the Federal Reserve System moved to tighten borrowing rates. By the end of August, the rediscount rate of 11 of its 12 member banks had been raised from 1¾ percent to 2 percent, three of these had moved one notch further to 2¼ percent, and further increases appeared imminent. At about the same time, interest rates on loans to savings and loan associations were raised ¼ to ½ percent by several of the Federal Home Loan Banks, and finance firms generally raised rates on commercial paper.

Nevertheless, bank loans continued to rise. Loans by leading New York City banks in the week ended August 31 rose for the sixth successive week to their highest point since December, 1953. Consumer debt has also been mounting, total installment credit outstanding at the end of July rising to a new high of $25.5 billion. Continued high sales of automobiles on credit were the chief cause of the increase.

Improved Budget Outlook

The Federal government in the fiscal year ending June 30, 1956, is likely to incur a deficit of $1.7 billion instead of the $2.4 billion originally foreseen by the President last January, according to the official midyear review of the budget. Expenditures for the year are now estimated at $63.8 billion, $1.4 billion higher than the original forecast. However, revenues are expected to rise even more, by $2.1 billion, as a result of prospective higher income tax collections accompanying the high level of business activity.

Most of the increase in the spending estimate is attributed to the farm price support program. Bumper crop yields are expected to double the $1.1 billion of support outlays forecast last January. Other increases have occurred in foreign economic aid, the postal deficit, interest on the public debt, veterans' benefits, and government pay.

A more optimistic view of the budget outlook is taken by the Secretary of the Treasury who predicts a balanced budget for this fiscal year, apparently based on the belief of a 3-percent reduction in expenditures and even higher revenues than predicted by the Bureau of the Budget.

CAPITAL EXPENDITURES · · By Donald C. Streever, Jr. · · Page 8

ILLINOIS BUSINESS REVIEW

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Bulwark Against Deflation

A frequent reply to warnings of a possible economic downturn is to invoke the government's responsibility for preventing serious deflation. Sometimes the point is made cynically, disparaging politicians — especially those of the other party — who would buy votes by spending public money. Sometimes it is made approvingly, being cited as an aspect of the tremendous economic progress that has been achieved in the last quarter century. That people with such divergent points of view agree on what must be done is an indication of how widely accepted the idea is.

With the bare bones of the proposition there can be no quarrel. The government will indeed do something about unemployment. Crises have always called forth some action, however late and ineffective it may have been; and never before has the machinery for such action been more effectively organized.

When we ask, however, how *much* government will do to prevent depression, the result is not nearly so clear-cut. Guesses of the net effective increase in total expenditures to be derived from government action in the event of a major decline commonly run to $10 or $15 billion a year. Occasionally a larger amount is mentioned. A few take the position, without considering specific figures, that the government is big enough to do whatever is needed.

The Magnitude of the Problem

There is no doubt that the government has been playing a progressively larger role in economic affairs. A good summary of its importance is provided by Solomon Fabricant, Director of the National Bureau of Economic Research, in the Thirty-fifth Annual Report of that organization. He points out that about a sixth of all employment and personal incomes are derived from government, including state and local units as well as the Federal government. In the economically critical construction and equipment industries, government purchases account for almost two-fifths of activity. The nature of the government's role and how it got to be what it is through successive emergencies is outlined. The influence of government's size on its power as a stabilizing influence is also discussed in general terms.

These facts must, of course, be considered in the setting of the economic situation as a whole. The private economy, too, is much bigger than ever before, and there is reason to think that it has progressively become more unstable. It is currently at the highs of a great postwar boom. That major cycles have in the past followed wars is more than coincidental. The war produces the situation that calls forth the intensive productive efforts of the boom, and the boom in turn sets in motion the forces of decline.

In the great depression of the early 1930's, there were extreme declines in private investment. From the peak to the low, construction dropped about nine-tenths and producers' durable equipment about three-fourths. Today private expenditures for construction are running in excess of $30 billion and for producers' durable equipment at close to $25 billion. Even in a considerably less severe depression than the last, these items together could lose more than $25 billion from the peak.

To appraise the more volatile forms of investment, it is necessary to think in terms of recent experience. In the decline from the 1951 highs, the annual rate of inventory investment fell $16 billion from the peak, and the extent of the swing was limited by the fact that there was no real pressure for liquidation. Consumer credit — which may be regarded as business investment in consumers' durables — is also highly volatile. At present the total outstanding amounts to $33 billion and is expanding at an annual rate of over $6 billion. In a reversal, a swing of $10 billion is well within the possibilities. Hence, these short-term investment items may also contribute something like $25 billion in deflationary pressure.

Adding the long- and short-term factors together indicates that a decline of the order of $50 billion in the annual rate of private investment alone might have to be dealt with during a major depression. The potential magnitude of such a decline is far in excess of any contemplated government action. Government operations are indeed important, but not yet so large as to ensure stability.

Restraints on Government Action

An important difficulty in getting effective action to counter a decline arises from the fact that the goals of government action are not purely economic. For this reason, such action must at times be unstabilizing in character. The recession of 1954, for example, was largely the result of cutbacks in military programs. Future cutbacks might be still less conveniently timed.

Even when stimulation of the economy is accepted as the dominant need, it is hard to get agreement on specific action. Many people who apparently believe the government can and will prevent depressions just don't want the government to be as important as it will have to be to do the job. In addition, everyone has his own pet solution and is not satisfied with the other fellow's. This makes for delays and inefficiencies in getting programs underway. Action tends to be delayed to the point where the need is fully apparent, and then the need becomes more acute before it can be made effective.

In part, too, government programs are subject to the same cyclical patterns of behavior as private investment. The military programs may be taken as a case in point. When equipment and supplies have been built up to the level contemplated by established objectives, production must be cut back to the level of current use. The result is similar in effect to the saturation of a private market.

Perhaps more important than the military program in

(Continued on page 6)

HONEY PRODUCTION

Before the advent of cane sugar, honey was the principal agent used for sweetening. It was of much greater importance to the ancients than to us, and in biblical times was referred to as the "resource of the destitute" because of its high nutritional value.

Today, honey's chief use is as a spread for breads. It is also used in baking breads and cakes since it has a tendency to cause baked goods to remain soft for a considerable time. In addition, it is used in the manufacture of soft drinks, alcoholic beverages, and candy, for moistening tobacco, as an insect attractant in insecticides, for infant feeding, and for many other purposes.

The main source of honey is nectar, the sweet exudation of flowering plants, which is gathered by honeybees and deposited in cells of the honeycomb located in the hive. However, nectar is not honey, and before it becomes the sweet sticky liquid with the affectionate name, it must undergo processing. Changes in the sugary plant juices begin in the honey stomach of the bee and continue in the hive until the substance reaches the altered condition known as ripened honey. Although honey is derived from nectar alone, both nectar and pollen are needed as food by the bees.

Beekeeping

The honeybee originally was a stranger to the Western Hemisphere. Bees are native to the Old World and were found throughout Europe, Asia, and Africa. The industry of beekeeping, established for the purpose of supplying honey, was practiced by the Egyptians as early as 2600 B.C., but it was not introduced to this continent until 1634 when the English brought bees to the Massachusetts Bay Colony. The appearance of the bee highly amused the Indians, who referred to it as the "white man's fly."

Modern beekeeping is the art of caring for honeybees so that they may be able to store honey in excess of their own needs for human use. A typical apiary might have several colonies of bees with a colony, consisting of 50,000 to 100,000 bees, assigned to each beehive. The hive is usually located within one mile of a good crop of nectar-producing plants, as bees in Illinois seldom fly further than two miles to gather honey. Under good conditions, such a colony may produce as much as 150 pounds of surplus honey annually. The exact amount varies from year to year because of seasonal and climatic conditions which affect the growth of the nectar and pollen plants as well as the condition of the bee colonies.

Honey appears on the market in many forms, but is originally designated as either extracted honey or comb honey. Although extracted honey represents the bulk of all honey sold, comb honey is the easiest to produce. The bees build and store their honey in separate combs in frames or in small wooden boxes called sections. The product can then be marketed with the wood still around the comb or sold as cut comb or chunk honey. In extracted honey, the honey is removed from the combs by centrifugal force in a machine known as a honey extractor. It is then heated and strained and put into containers for marketing.

Honeys differ in flavor and color because of the various floral origins of nectar. In Illinois, the main honey flow is obtained from sweet, white, and alsike clover, which yield a good grade honey of a light color and a mild flavor; the backbone of Illinois beekeeping is sweet clover, and when found in abundance it offers ample opportunities for the honey producer.

Beeswax, another product of the bee, is primarily used in the manufacture of church ceremonial candles. However, it is also used in wax polishes, paints, ointments, modeling wax, lithographic inks, cosmetics, and for waterproofing.

The Industry

More than 200 million pounds of honey and from four to five million pounds of beeswax are produced annually in the United States. The 1954 honey crop amounted to 217 million pounds of honey valued at $36 million. This was significantly less than the 273-million pound, $44-million crop of 1952. The decline was due primarily to the long periods of drought and early March freezes of the past two years which damaged nectar plants and weakened bee colonies.

Honey production in Illinois, as in most other states, is restricted by the supply of nectar and pollen plants as well as by storage and marketing problems. During the past twenty years, Illinois has been rated as high as the third and as low as the fifteenth ranking state in the production of honey. During 1954, 28,000 Illinois beekeepers produced 6,440,000 pounds of honey valued at more than $1 million. Although this amount was not as much as had been produced in some previous years, it did represent a 27-percent increase over 1953.

The 1955 season promises to be favorable in Illinois, as weather and plant conditions are very good. Even though 20 percent of the State's 164,000 colonies of bees were killed by starvation, the cold, or other causes during the winter, it appears that the largest honey crop in several years is now being produced.

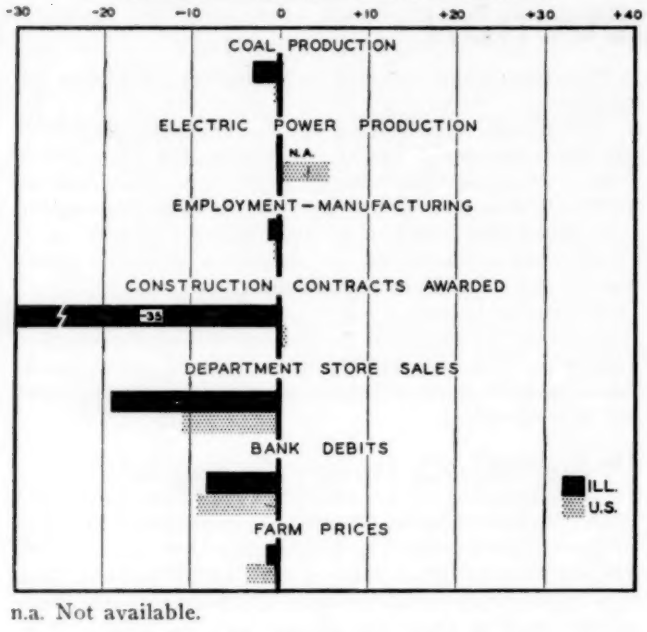
The outlook for the industry as a whole is favorable and appears to be fairly stable. However, honey may deteriorate if not sold, and since the system of marketing is not well organized, honey producers often have difficulty in selling large wholesale lots. Consequently, the number of bee colonies will be increased only when a profitable market for honey can be developed and maintained.

It is worth while to note, however, that despite the crucial role of the bee in the production of honey, to the State as a whole the return from beeswax and honey is of secondary importance. The honeybees' chief value lies in their ability to cross-pollinate fruit and legume blossoms. In fact, bees are responsible for 80 to 85 percent of all crop pollination performed by insects, and in this respect the fruit grower, truck farmer, and general farmer are all assisted by the bee.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes June, 1955, to July, 1955



n.a. Not available.

ILLINOIS BUSINESS INDEXES

Item	July 1955 (1947-49 =100)	Percentage Change from June 1955	Percentage Change from July 1954
Electric power[1]	209.6	+ 7.0	+17.3
Coal production[2]	60.0	− 3.7	+11.8
Employment—manufacturing[3]	104.3	− 1.0	+ 5.4
Weekly earnings—manufacturing[3]	143.3[a]	+ 1.0	+ 7.5
Dept. store sales in Chicago[4]	116.0[b]	+ 6.4	+ 8.4
Consumer prices in Chicago[5]	118.2	+ 0.7	+ 0.2
Construction contracts awarded[6]	300.2	−35.0	+25.2
Bank debits[7]	151.8	− 7.9	+ 5.9
Farm prices[8]	81.0[c]	− 1.2	− 6.9
Life insurance sales (ordinary)[9]	185.9	−10.3	+22.0
Petroleum production[10]	133.6	+ 4.6	+31.6

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U. S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.
[a] June data; comparisons relate to May, 1955, and June, 1954. [b] Seasonally adjusted. [c] Revised series.

UNITED STATES MONTHLY INDEXES

Item	July 1955	Percentage Change from June 1955	Percentage Change from July 1954
	Annual rate in billion $		
Personal income[1]	304.7[a]	+ 1.0	+ 6.1
Manufacturing[1]			
Sales	321.6[a]	− 1.1	+15.5
Inventories	43.9[a, b]	+ 0.5	+ 1.2
New construction activity[1]			
Private residential	18.4	+ 3.6	+21.0
Private nonresidential	14.9	+ 4.4	+10.8
Total public	14.3	+ 4.6	+ 2.1
Foreign trade[1]			
Merchandise exports	15.8[c]	+ 0.5	−10.8
Merchandise imports	11.1[c]	− 3.2	− 2.2
Excess of exports	4.7[c]	+10.8	−26.1
Consumer credit outstanding[2]			
Total credit	32.9[b]	+ 1.3	+14.5
Installment credit	25.5[b]	+ 2.2	+16.6
Business loans[2]	23.5[b]	+ 0.1	+ 9.3
Cash farm income[3]	n.a.	....	....
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	140[a]	+ 0.7	+13.8
Durable manufactures	157[a]	+ 1.3	+17.2
Nondurable manufactures	128[a]	0.0	+12.3
Minerals	122[a]	− 0.8	+ 8.9
Manufacturing employment[4]			
Production workers	107[a]	+ 0.1	+ 7.1
Factory worker earnings[4]			
Average hours worked	101	− 1.0	+ 2.3
Average hourly earnings	141	+ 0.5	+ 4.4
Average weekly earnings	143	− 0.5	+ 6.8
Construction contracts awarded[5]	297	+ 0.8	+23.7
Department store sales[3]	123[a]	+ 6.0	+10.8
Consumers' price index[4]	115	+ 0.3	− 0.4
Wholesale prices[4]			
All commodities	111	+ 0.3	+ 0.2
Farm products	90	− 2.5	− 7.0
Foods	103	− 0.8	− 3.2
Other	117	+ 0.8	+ 1.9
Farm prices[3]			
Received by farmers	87	− 3.3	− 3.3
Paid by farmers	112	− 0.9	0.0
Parity ratio	84[d]	− 2.3	− 4.5

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.
[a] Seasonally adjusted. [b] As of end of month. [c] Data are for June, 1955; comparisons relate to May, 1955, and June, 1954. [d] Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1955					1954
	Aug. 27	Aug. 20	Aug. 13	Aug. 6	July 30	Aug. 28
Production:						
Bituminous coal (daily avg.) thous. of short tons	1,622	1,579	1,553	1,532	1,608	1,252
Electric power by utilities mil. of kw-hr.	10,906	10,812	10,729	10,925	10,727	9,227
Motor vehicles (Wards) number in thous.	150	160	173	163	188	111
Petroleum (daily avg.) thous. bbl.	6,685	6,701	6,635	6,640	6,616	6,141
Steel 1947-49=100	127	126	125	122	127	88
Freight carloadings thous. of cars	792	781	775	765	796	677
Department store sales 1947-49=100	111	106	100	97	98	102
Commodity prices, wholesale:						
All commodities 1947-49=100	110.5	110.3	110.2	110.1	109.9	110.5[a]
Other than farm products and foods 1947-49=100	117.0	116.8	116.8	116.7	116.3	114.4[a]
22 commodities 1947-49=100	89.2	89.0	89.9	90.1	90.3	91.4
Finance:						
Business loans mil. of dol.	24,050	23,940	23,754	23,550	23,526	20,773
Failures, industrial and commercial number	180	216	169	213	201	184

Source: *Survey of Current Business, Weekly Supplements.*

[a] Monthly index for August, 1954.

RECENT ECONOMIC CHANGES

Housing Vacancies

Demand for housing continues to support the near-record addition to the supply being put in place this year. As illustrated by the chart below, vacancies amounted to 8 percent of available units in the second quarter of 1955, according to a survey by the Department of Commerce. However, most of the vacant units were vacant for reasons other than an insufficiency of demand. They were either summer homes, dilapidated units, or units awaiting occupancy by their owners or renters.

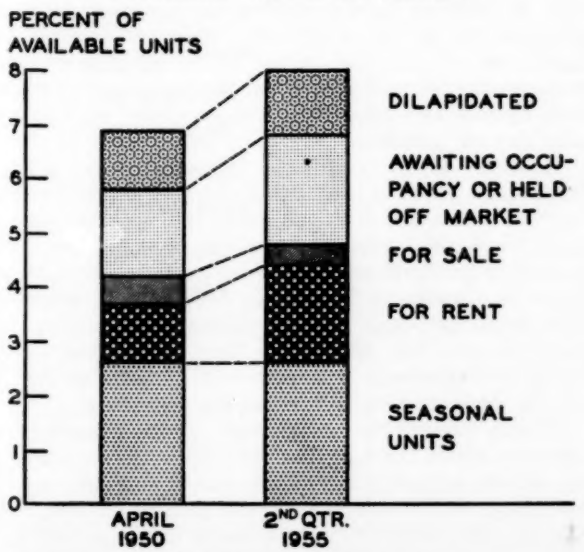
Vacant housing available for rent amounted to 1.8 percent and units for sale to .4 percent of all dwelling units in the second quarter compared with 1.1 percent and .5 percent respectively in early 1950. Vacant houses for rent accounted for virtually all of the past five years' increase in the over-all vacancy rate.

Consumer Incomes Stable in 1954

Income of the average American over 14 years of age leveled off last year at $2,300, according to the Census Bureau. The sizable disparity between the average incomes of men and women was again evident. Median income of males amounted to $3,200 last year as compared with $1,200 for the fairer sex. The discrepancy is due partly to the higher wage rates received by men and to the fact that men hold the bulk of high-income positions, but the difference is also partly due to the prevalence of more part-time workers among women.

Along with the leveling in total income in 1954, there was some slowdown in the trend toward a more equal distribution of income. The proportion of men and women with incomes over $5,000 increased only fractionally last year to 13.8 percent. Between 1952 and 1953, the proportion had increased from 12 percent to 13.5 percent, and in 1945, only 3 percent of income receivers earned more than $5,000. At the other end of the income scale, the proportion of persons with incomes below $2,000 has declined from 67 percent in 1945 to 45 percent last year. It may be noted, however, that much of the shift in the distribution of income since the war reflects price and wage increases rather than a shift toward a greater equality of income.

HOUSING VACANCY RATES



Source: U. S. Department of Commerce.

Gross Product Up Sharply

Gross national product increased substantially in the second quarter with all major sectors of the private economy contributing to the advance. Total output at seasonally adjusted annual rates amounted to $385 billion, $9.5 billion above the first quarter and $17.2 billion above last year's second quarter low.

GROSS NATIONAL PRODUCT OR EXPENDITURE
(Seasonally adjusted, billions of dollars at annual rates)

	2nd Qtr. 1955	*1st Qtr. 1955*	*2nd Qtr. 1954*
Gross national product	384.8	375.3	357.6
Personal consumption	250.5	245.8	235.1
Durable goods	35.1	34.4	29.0
Nondurable goods	125.3	122.4	120.4
Services	90.2	89.0	85.7
Domestic investment	60.1	54.1	46.9
New construction	32.1	31.2	27.3
Producers' durable equipment	23.7	21.5	22.4
Change in business inventories	4.3	1.5	−2.7
Nonfarm inventories only	4.2	1.5	−3.2
Foreign investment	−.7	−.4	−.3
Government purchases	74.9	75.8	75.9
INCOME AND SAVINGS			
National income	n.a.	311.4	298.9
Personal income	300.5	293.6	286.6
Disposable personal income	267.1	261.0	253.9
Personal saving	16.6	15.3	18.8

Private investment was up by $6 billion from the first quarter, with a $2.8-billion increase in the rate of inventory accumulation and a $2.2-billion rise in equipment acquisition accounting for the bulk of the gain.

Part of the gain was brought about by a further sharp advance in personal consumption expenditures. The strength of these outlays is a reflection partly of rising disposable income and partly of the willingness of consumers to spend a higher proportion of their incomes. Personal saving in the second quarter constituted only 6 percent of disposable income as compared with 7 percent of disposable income saved a year ago. The $15-billion gain in consumption expenditures over the past year has been shared about equally between durable, nondurable, and service expenditures.

Direct Investment Continues High

American corporations' direct investments in their foreign enterprises increased by $1.4 billion in 1954, continuing the steady growth that has prevailed since the war.

Last year's increase brought the accumulated value of direct investments to $17.7 billion, over $10 billion of which has been added since 1945. Industrially, the bulk of total business investment abroad has gone into manufacturing and petroleum. These two industries shared about equally more than 60 percent of total direct investments at the end of 1954. Mining and smelting accounted for another 17 percent of the total.

Of the $5.7 billion invested in foreign manufacturing companies, more than half has been spent in Canada, a fourth in Western Europe (largely in the United Kingdom), and more than a fifth in Latin America. A major consideration in the location of most manufacturing in-

vestments is the existence of sizable local markets. In petroleum and mining this is of less significance since the investment mainly reflects the location of the resource rather than the market.

Portland Cement in Short Supply

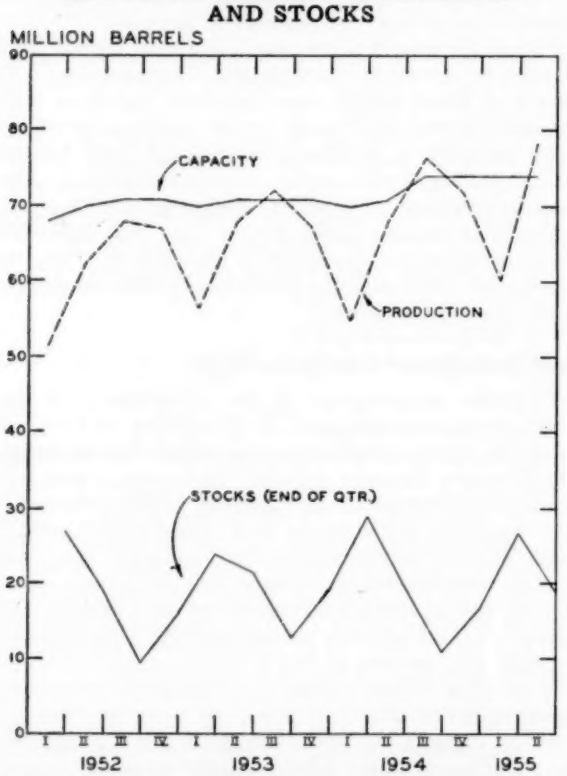
Fairly pronounced shortages of portland cement are likely in some localities throughout the second half of 1955. Cement consumption in the first half led 1954 by 12 percent, reflecting the record volume of new construction activity so far this year. Consumption usually exceeds production during the second and third quarters of the year with the deficit supplied from inventory accumulations. This year, however, portland cement stocks at the second quarter seasonal peak amounted to only 26.5 million barrels, 2.5 million barrels less than a year ago.

The Department of Commerce has estimated cement consumption for 1955 at 285 million barrels. The industry currently has an annual capacity — existing facilities operated 40 hours a week throughout the year — of 296 million barrels. However, as shown by the chart, this is inadequate for meeting seasonal demands without overtime operations. The industry reportedly has expansion plans and work in process which will eventually add 16 million barrels to capacity and help alleviate the tight supply situation.

Dividends Increase

Corporation dividends in July amounted to $669 million, more than a fifth above disbursements in the same 1954 month. However, the sizable increase reflected unusually low disbursements last July when some corporations postponed payments until August to give stockholders advantage of dividend tax relief that took effect that month. After allowance for this factor, dividends were still slightly above July, 1954, with the gain concentrated largely among communications and financial corporations. For the first seven months of 1955, dividends amounted to $5.3 billion, 10 percent above the same 1954 months.

PORTLAND CEMENT PRODUCTION AND STOCKS



Source: U. S. Department of Commerce.

Employment at Record High

Employment continued to expand in August, rising by a half million to a record high of 65.5 million as agricultural employment dipped less than seasonally and nonfarm employment moved up by 700,000 workers. Unemployment declined during the month to 2.2 million. Census data in thousands of workers follow:

	August 1955	*July 1955*	*August 1954*
Civilian labor force	67,725	67,465	65,522
Employment	65,488	64,995	62,277
Agricultural	7,536	7,704	6,928
Nonagricultural	57,952	57,291	55,349
Unemployment	2,237	2,471	3,245

Presidential approval of the increase in the minimum wage from 75 cents to $1.00 an hour in August will improve the incomes of workers in many lower-paying pursuits. The new minimum becomes effective next March and applies with some exceptions to employees engaged in interstate commerce or in production of goods for interstate commerce.

Bulwark Against Deflation

(Continued from page 2)

the current situation is the high rate of investment in the new facilities needed by state and local governments. These are in large part connected with private construction. When people are building new homes, they want streets, sewer and water systems, schools, and all the other facilities that make up a modern community. State and local governments throughout the country have been under pressure to meet the need. Public construction, excluding military and atomic energy projects, is today a higher proportion of the total than in the 1920's. After a decline, it is difficult to keep such activity going, not only because the need declines, but because finances are pinched. Government revenues decline with activity and from the smaller income current services must be maintained, so that the impact of the decline is focused on new capital outlays. Federal public works programs undertaken specifically to support the economy must therefore work against an adverse trend in state and local as well as in private investment.

Another widely supported suggestion for counter-deflationary action is the cutting of taxes, on the assumption that funds left with the public will in large part be spent. No doubt further tax cuts will be made, but it will be hard to get agreement on the extreme tax-cutting that might be necessary. Disparities between the producers who have lost their incomes through depression and unemployment and those who have maintained or increased their incomes will loom large enough so that the case for making them still larger is undermined.

Taking everything into account, it would appear that estimates which limit government action to only a fraction of the potential magnitude of the problem are not unrealistic. It is inconsistent to assume at the same time that the problem of stabilization has been solved.

VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Branding the Consumer

The importance of brands to the manufacturer, the distributor, and the consumer is the subject of a recent study made by members of the marketing staff of the University of Illinois. It represents the first concerted attempt to explore the market position and trends of manufacturers' and distributors' brands since the early 1930's. Through interviews with business firms, information was collected on brand policies, problems, and practices. Studies of the interrelationships between price and quality and of consumer preference with regard to different brands were also conducted. The findings of this work are available in *Manufacturer and Distributor Brands,* by Robert H. Cole, Lloyd DeBoer, Richard D. Millican, and Nugent Wedding. It is available from the Bureau of Economic and Business Research, 205 David Kinley Hall, Urbana, for $1.00 per copy.

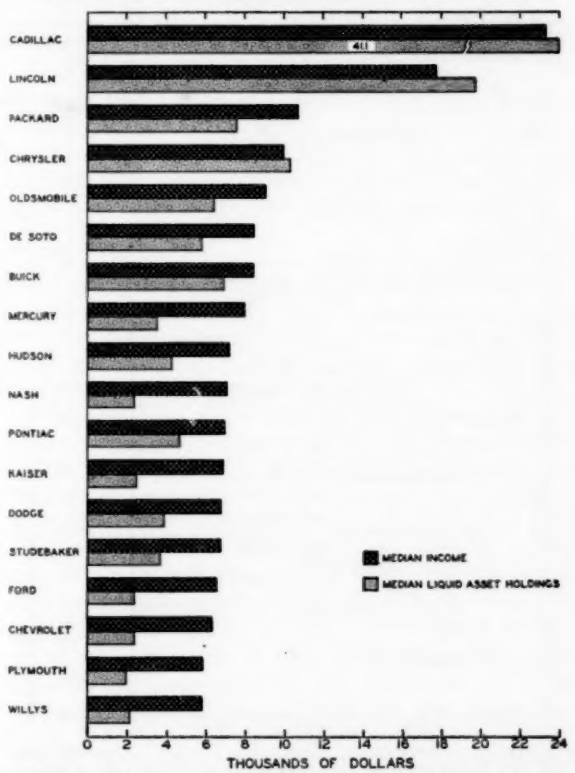
Car-Buying Families

Persons buying new cars are among the richest potential market in the nation. Their incomes average almost twice those of the nation as a whole, and their savings are also very much greater, according to a survey on new car buyers conducted by *United States News and World Report.* Both income and liquid asset holdings, however, vary a good deal among the various makes of cars, as may be seen in the accompanying chart. In general the more expensive the car, the higher the average income of its purchasers. Liquid asset holdings show a similar pattern with regard to car price, but there are surprisingly large differences in the assets of car-buying groups with substantially the same annual income level.

The primary uses of the new cars involved business. About 70 percent of the cars purchased were to be driven to work and more than 40 percent were also driven on longer business trips. Civic and club work and driving children to school were other important activities for the new cars.

More than 90 percent of the purchasers had a car to trade in and 62 percent traded in the same make as the new car bought, with 58 percent being purchased from the same dealer. The average age of the cars traded in was about three years, and more than 90 percent were less than five years old. The majority of buyers, 62 percent, planned to trade the new car within the next three years, four out of five expecting to get the same make next time.

INCOME AND ASSETS OF CAR BUYERS



Source: *The People Buying New Automobiles Today,* Market Research Division, United States News Publishing Corp.

Civilizing Water

A water heater that can be attached to the cold water faucet is being marketed by Greatex Products, Inc., 890 Sixth Avenue, New York 1. By carrying the water in a winding path through an electrical field, the Thermojet will produce lukewarm to steaming water — the slower the flow, the hotter the water. Weighing only three pounds, the heater sells for $19.95.

A new water purifying system has also recently entered the market. It is called the Pudlo Water Clarifier, manufactured by Pudlo Liquid Filters, Inc., in Holstein, Wisconsin. It is a small unit containing replaceable filter pads which will last a week to several months, depending on the volume of water used and the amount of impurities. The device can be attached to the main water pipe where it enters the house or to the outlet of a storage tank. By filtering out minerals such as iron and lime it prevents clogging and scaling in the pipes.

Households and Families

In the past five years the number of households in the United States has increased by almost 10 percent to 47.8 million, according to estimates of the Bureau of the Census. The increase has been entirely in nonfarm households, including both urban and rural nonfarm, which rose 13 percent, whereas farm households declined about the same proportion. In April of this year there were 42.2 million nonfarm households and 5.5 million farm households.

Almost 90 percent of the households are maintained by families, the others being occupied by individuals. In addition to the 41.7 million primary families, or those with their own households, there are 0.2 million secondary families and 2.0 million subfamilies. Both these groups live in households with other families, but are distinguished by the fact that a secondary family is not related to the person maintaining the household whereas the subfamily is.

Married couples have increased by 4 percent since 1950. The number with their own households has increased even more rapidly, 6.4 percent, as the result of continued undoubling. The number living in another household has shrunk to a postwar low of only 1.3 million couples, less than half the number at the close of the war.

CAPITAL EXPENDITURES

DONALD C. STREEVER, JR., Research Assistant

Private investment outlays seldom account for more than 15 percent of gross product but they tend to be considerably more erratic than total output over the course of the business cycle. They decline relatively more than total activity in periods of business slump and rise relatively more in recoveries. This phenomenon has given rise to the widely accepted notion that the basic cause of fluctuations in income and employment is the instability of investment.

In the recession of 1954, plant and equipment expenditures declined 11 percent as compared with a 3-percent decline in gross national product. This year gross national product surged ahead to a new high. The slower response of investment makes it difficult to judge how far the recovery in capital expenditures will carry. The August survey conducted by the Department of Commerce and the Securities and Exchange Commission indicates that the recovery in capital expenditures which began in the first quarter can be expected to continue through the remainder of 1955. On this basis 1955 expenditures promise to exceed 1954 by about 4 percent, without reflecting the full extent of the recovery.

This article considers some of the possibilities for the near-term outlook, after a brief review of recent trends. The analysis is pursued in light of the factors influencing capital expenditures and the need for new productive facilities as indicated by movements in output relative to the existing capital stock.

Factors Influencing New Investment

Plant and equipment expenditures are sensitive to changes in over-all demand. When output is rising facilities of many firms are inadequate for meeting higher production schedules without resorting to the costly use of overtime employment of labor forces or the operation of older, less efficient capital facilities. This gives rise to a strong stimulus for new investment. On declines, existing facilities are relied upon and the inducement to expand is lost.

The sensitivity of new capital investment to output changes necessarily operates with some lag, because of the time required for construction and installation of new facilities. Investment outlays may remain low for several quarters after recovery in other sectors has been evident. Similarly, expansion plans made in a period when output is rising will generally result in a continuation of high-level expenditures for some time after output has turned down.

The postwar relationship of industrial, utility, and railroad investment to production measures is illustrated in Chart 1. The time lag referred to is evident in the industrial and railroad panels of this chart, and shows up especially in the slowness with which expenditures respond to recovery from the lows in output.

It is important to recognize that factors other than production affect the level of investment outlays. Examination of the relationship of output and investment prevailing over the past thirty years for various major industries indicates that one of the most important of these other factors is the stock of existing plant and equipment. Over long periods of time, the relationship of capital expenditures to production is a declining one. This is accounted for by rising capacity, since the greater the amount of existing productive facilities, the larger an increase in output must be to call forth a given level of new investment. Conversely, a stable level of production is not an adequate stimulus to growth in plant and equipment outlays. With stable or declining output business can reduce the volume of new investment and satisfy demand with the existing capital stock.

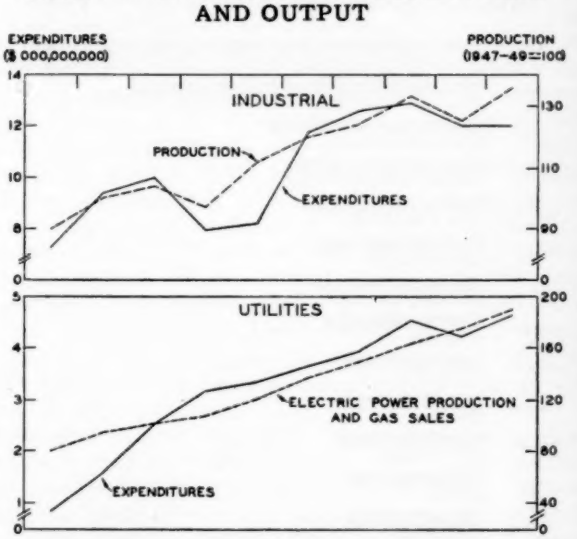
Changes in capacity are generally in one direction only. When activity is expanding, investment outlays exceed replacement needs and the capital stock advances. When declines in activity occur, they affect capacity only gradually because of the slowness with which durable capital goods wear out and have to be retired. Furthermore, even when activity is at its lowest, new expenditures may still be sufficient to maintain the existing stock so that capacity merely stops growing or at most declines only slightly.

Recent Experience

As shown by Chart 2, expenditures by all major industries except the commercial, financial, and trade group declined during 1954.

Industrial production declined by 7 percent during the year whereas industrial capital stock increased by about 4 percent. This resulted in a decline in industrial investment of 7 percent between 1953 and 1954. The drop from the high to the low quarterly extremes of the period were, however, about three times as large.

CHART 1. INVESTMENT EXPENDITURES AND OUTPUT



Sources: Securities and Exchange Commission, U. S. Department of Commerce, Federal Reserve Board, American Gas Association, Federal Power Commission, and Association of American Railroads.

In the transportation field, divergent trends in investment reflect the loss of business by railroads to other carriers since the war. In 1939 railroads accounted for 63 percent of intercity freight traffic; in 1954 their share was down to about 51 percent. Motor trucks and oil pipelines have absorbed much of the share of traffic volume lost by the railroads. Similar shifts have occurred in passenger traffic.

The effect of these movements on capital outlays has been to restrict railroad investment, particularly since 1951 when the dieselization program reached its peak. Rail investment reached a postwar high of $1.5 billion in 1951 and then declined each year to $850 million in 1954. Expenditures by other kinds of freight carriers have increased except, significantly, in 1949 and 1954 when total volume dropped.

The recent rise in carloadings, particularly at the midyear seasonal peak, has placed considerable strain on the roads' traffic-moving capacity. In July new car orders rose for the fourth consecutive month to 18,000 cars, and backlogs at the beginning of August were up to 43,000 cars, more than five times their level a year ago.

New investment expenditures by power utilities have expanded more than fivefold in the postwar period and have resulted in an increase in generating capacity from 52 million kilowatts at the beginning of 1946 to 102.6 million at the beginning of 1955. Despite the large additions to capacity, the ratio of production to capacity has remained considerably above prewar levels, reflecting the greater growth in electric power production than in capacity since the prewar years.

The postwar boom in gas and electric power production and investment reflects expansion of industrial production, the greater amount of capital facilities per worker, and the housing boom and the related increasing mechanization of American homes.

Consumption of electricity by the industrial sector is closely related to industrial production, though declines in the latter are not fully reflected in the former. In the domestic sector, energy consumption is fairly insensitive to changes in the level of business. Domestic consumption depends largely on the stock of household appliances and equipment which use gas and electricity. These are for the most part kept in operation during recessions.

Outlook

Currently, the role of business capital expenditures is shifting from a vigorous response to the recovery that began elsewhere toward becoming the primary factor keeping the boom moving ahead. The question is, How long can it continue to play this new role?

In the manufacturing sector, maintenance of continued high-level expenditures into next year hinges on continued expansion in output. Even if industrial production levels off or declines next year, the advance in industrial investment expenditures from the first quarter of 1955 can be expected to carry over into the early part of 1956 by virtue of the lagged response to 1955's record output. However, capacity will probably increase by about the same amount this year as in 1954. Gross expenditures are estimated somewhat higher than a year ago, but retirements from the increased capital stock can also be expected to be up somewhat. This rise in the capital stock will limit the need for new investment in 1956.

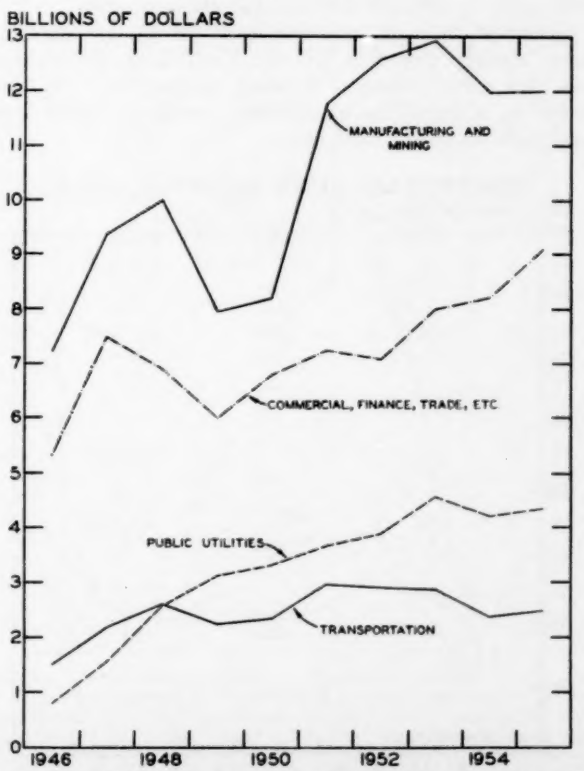
If total industrial production in 1956 advances by 5 percent, an increase of about $1 billion in industrial investment would not be unreasonable. If production levels off, expenditures can be expected to level or decline, with a second-half reduction balancing or more than offsetting the fairly certain gain in the early part of the year. If production should be down by any notable degree next year, the effect of adequate capacity in conjunction with reduced output will produce a sharper cutback in the second half of 1956 which would probably extend into 1957.

Sharp curtailment in electric power investment is unlikely as long as production continues to advance. The postwar increase in capacity does not appear to be out of line with rising production and consumption. Since lags are very long in this area, no substantial reduction is likely to occur before the end of 1956.

The large backlog of railroad car orders ensures maintenance of and perhaps some further increase in the current level of capital expenditures by the rails into 1956. Although it is not likely that the railroads will gain back any significant share of the shipping market from their competitors in the near future, carloadings may stabilize at something like current levels if total transportation activity continues to expand. In this event, the current moderate rise in capital expenditures will continue only until facilities are adequate for meeting seasonal demands. Thereafter, outlays could be expected to cover replacement and maintenance needs, but little more.

As long as consumer demand and production of goods and services continue to increase, capital expenditures will continue to contribute a substantial share to total activity. If the current rate of growth is not maintained and output should merely hold stable at the current highs, investment expenditures can be expected to level off also and then begin a moderate decline. In the event of an actual reversal in production, a sharp reduction in new investment expenditures will be in the offing.

CHART 2. PLANT AND EQUIPMENT EXPENDITURES



Source: SEC-Department of Commerce surveys.

LOCAL ILLINOIS DEVELOPMENTS

Business activity moved seasonally downward in Illinois during July, although most indicators were still well ahead of their mid-1954 levels. Construction contracts showed the largest decline, 35 percent, as the index fell to within 25 percent of its year-earlier level for the first time in five months. Department store sales dropped almost 20 percent in July, although on a seasonally adjusted basis they were up slightly. Steel output, bank debits, and life insurance sales were also down for the month.

Petroleum production, on the other hand, rose during July, largely as a result of the discovery of six new oil pools during the month. Production ran more than 30 percent higher than a year ago. Coal production, although down for the month, was almost 12 percent higher than in July, 1954.

Crop Outlook

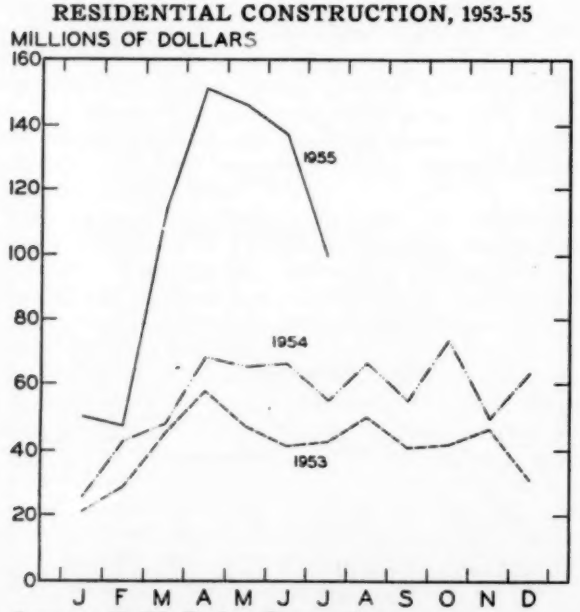
The rains came! And just in time, since a very dry August had threatened to sharply curtail crop production. The record crop estimates made at the beginning of the month had already been revised downward for corn and soybeans when the dry central portions of the State welcomed rainy skies and cooler weather.

The crop report at the beginning of September forecasted several records. An all-time high of 109 million bushels is estimated for soybeans. The corn crop, with a prospective 500 million bushels, is one of the largest ever produced. Hay tonnage of 5.2 million tons is one-half million greater than the previous high.

Record yields per acre are also being chalked up. Oats are expected to set a new high of 57 bushels. Wheat's yield of 31.5 bushels per acre is also an all-time high. A record of 18.5 bushels is being set for rye, and the barley yield will be very close to the record 36.5 bushels per acre set in 1940. These yields are resulting in the largest total crops in decades for many of these grains.

Many of these large crops come on top of enormous stocks already stored in Illinois. Even if the recent dryness has some effect in limiting output, there is little chance of a dwindling of the huge surpluses which have been built up in the past years.

RESIDENTIAL CONSTRUCTION, 1953-55



Source: F. W. Dodge Corporation.

Training for a Trade

In March of this year there were 9,508 apprentices registered in this State, almost 8 percent of the total number in the nation. Illinois ranks fourth in the United States, with more apprentices than any other state except New York, California, and Ohio.

Currently almost three-fourths of the persons in such training are in the building trades. These have accounted for all of the increase in recent years, advancing by more than 2,000 persons whereas the total number of apprentices increased by less than half that amount. The building boom and resultant high wages are largely responsible for this gain.

Carpenters' apprentices have swelled their ranks the most, more than doubling since 1952. They now number about 1,500, exceeded only by plumbers and pipefitters, which total 1,700. Electricians and the "trowel trades," which include brick, stone, and tile workers, cement masons, and plasterers, have about 1,400 apprentices each.

The next largest group, comprising 800 persons, is tool and die makers, the only nonconstruction trade to boast more than 500 apprentices. Two others with about 500 persons are machinists and sheet metal workers.

Airport Construction Program

Thirty airports scattered throughout the State are in line for expansion and improvement under a two-year construction program recently announced by Governor Stratton. The airports stretch from Rockford to Cairo and from Quincy to Danville, including both municipal and county fields.

Hangars, additional land, runways, lights, and towers are among the projects to be undertaken between now and 1957. In Peoria an administration building, a hangar, and roadways are scheduled. Freeport will receive new lights, roads, and some electrical work. In Centralia plans have been made for new hangars and lights as well as improvements on existing facilities. Additional land, with lights and runways, are contemplated for Dixon.

The expenditures range from $5,000 at Marshall and Taylorville to $2.25 million at O'Hare Field in Chicago. In all, the State plans to spend about $3.1 million; an additional $3.4 million will be contributed by the Federal government and some local funds will also be used.

Decline in Construction

A great deal of steam escaped from the Illinois construction boom during July. The valuation of all contracts awarded feli from a high of $245 million in June to $159 million in July, a drop of 35 percent.

Just as the boom had been based on housing, about half of the sharp loss resulted from declines in residential contracts, as may be seen in the accompanying chart. Residential awards reached their peak in April, and in the three months thereafter they retraced about one-half the distance to the levels of 1953 and 1954. Some measure of the slackening can be attributed to the usual seasonal letdown toward winter. Recent tightening of credit restrictions and saturation of the housing market, however, seem to be the major factors behind so sharp a drop.

Nevertheless, employment in contract construction continued upward in Illinois during July, reflecting the lag between contract awards and actual building.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

July, 1955

	Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS	$30,157[a]	993,590[a]	$566,772[a]		$13,271[a]	$11,221[a]
Percentage change from June, 1955	−2.3	+3.8	+0.8	−19	−7.9	−22.1
Percentage change from July, 1954	+13.8	+7.9	+3.9	+5	+5.9	−4.0
NORTHERN ILLINOIS						
Chicago	$18,269	751,071	$409,128		$12,075	$9,745
Percentage change from June, 1955	−6.2	+4.0	+0.4	−21	−7.9	−22.5
Percentage change from July, 1954	−4.5	+6.1	+1.9	+4	+5.5	−4.2
Aurora	$ 505	n.a.	$ 8,576		$ 55	$ 104
Percentage change from June, 1955	−9.3		+1.4	−20	−4.6	−8.5
Percentage change from July, 1954	−2.1		+9.4	+10	+14.8	+1.4
Elgin	$ 516	n.a.	$ 6,109		$ 36	$ 62
Percentage change from June, 1955	+83.6		+2.6	−20	−2.1	−44.7
Percentage change from July, 1954	+13.9		+8.3	+9	+11.0	−19.6
Joliet	$ 954	n.a.	$11,960		$ 69	$ 71
Percentage change from June, 1955	+5.5		−1.5	−16	−9.5	−30.5
Percentage change from July, 1954	+184.8		+9.0	+16	+8.2	−18.9
Kankakee	$ 212	n.a.	$ 5,540		n.a.	$ 34
Percentage change from June, 1955	−50.8		−4.4	n.a.		−17.9
Percentage change from July, 1954	+59.4		+3.7			+6.1
Rock Island-Moline	$ 711	22,808	$ 9,935		$ 89[b]	$ 119
Percentage change from June, 1955	−20.9	+10.0	−2.4	n.a.	−9.9	−21.2
Percentage change from July, 1954	−35.7	+15.9	+1.3		+8.2	−10.0
Rockford	$1,619	34,186	$19,051		$ 163	$ 165
Percentage change from June, 1955	−37.7	−1.4	+4.2	−21[c]	+1.2	−14.8
Percentage change from July, 1954	+73.0	+31.0	+18.4	+7[c]	+24.0	+10.0
CENTRAL ILLINOIS						
Bloomington	$ 203	6,970	$ 5,689		$ 60	$ 76
Percentage change from June, 1955	−49.1	−4.4	+2.4	n.a.	−7.6	−32.8
Percentage change from July, 1954	−26.7	+3.7	+3.7		−1.8	−2.6
Champaign-Urbana	$ 567	9,476	$ 7,870		$ 61	$ 68
Percentage change from June, 1955	−39.4	+3.2	−1.2	n.a.	−6.0	−25.3
Percentage change from July, 1954	+78.9	+1.8	+6.9		+13.5	+0.1
Danville	$ 309	10,976	$ 6,620		$ 53	$ 55
Percentage change from June, 1955	+6.2	+27.4	+3.8	−3	+4.8	−1.8
Percentage change from July, 1954	+64.4	+21.4	+14.7	+26	+12.9	+3.2
Decatur	$2,732	29,363	$11,819		$ 113	$ 87
Percentage change from June, 1955	+358.4	+4.8	−7.6	+3[c]	−1.6	−32.4
Percentage change from July, 1954	+116.7	+20.3	+5.7	+12[c]	+26.5	−12.9
Galesburg	$ 312	7,628	$ 4,517		n.a.	$ 30
Percentage change from June, 1955	+52.2	+0.7	+1.9	n.a.		−20.0
Percentage change from July, 1954	+43.1	+5.6	+5.8			−9.3
Peoria	$1,490	46,835[c]	$19,452		$ 202	$ 194
Percentage change from June, 1955	−8.3	−7.2	+7.6	−14[c]	−11.6	−28.6
Percentage change from July, 1954	+342.1	+10.8	+13.2	+10[c]	+14.6	−7.9
Quincy	$ 768	8,220	$ 5,263		$ 38	$ 56
Percentage change from June, 1955	+180.3	−3.8	−0.1	−7	−13.8	−2.8
Percentage change from July, 1954	+164.8	+2.3	+8.2	+5	+4.2	−5.4
Springfield	$ 406	34,696[c]	$14,424		$ 104	$ 220
Percentage change from June, 1955	+44.0	+18.6	−2.1	n.a.	−9.1	−0.3
Percentage change from July, 1954	+31.0	+17.8	+9.3		+7.8	+13.9
SOUTHERN ILLINOIS						
East St. Louis	$ 298	12,051	$10,254		$ 114	$ 68
Percentage change from June, 1955	−55.9	+10.9	+9.7	n.a.	−14.6	−7.0
Percentage change from July, 1954	+16.9	−6.4	+9.6		−10.9	−14.3
Alton	$ 152	12,874	$ 5,464		$ 38	$ 28
Percentage change from June, 1955	−40.2	−3.3	+11.4	n.a.	−14.0	−9.3
Percentage change from July, 1954	−30.6	+7.8	+9.2		+6.9	−1.5
Belleville	$ 134	6,435	$ 5,099		n.a.	$ 38
Percentage change from June, 1955	−23.9	−1.0	+12.6	n.a.		−10.6
Percentage change from July, 1954	−33.7	+1.8	+11.7			+12.1

[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] U. S. Bureau of Labor Statistics. Data include Federal construction projects. [2] Local power companies. [3] Illinois Department of Revenue. Data are for June, 1955, the most recent available. Comparisons relate to May, 1955, and June, 1954. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports.

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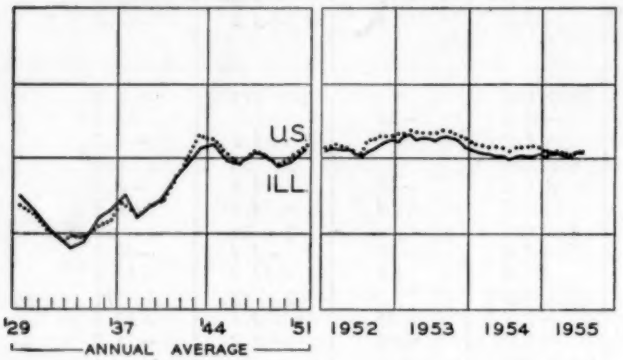

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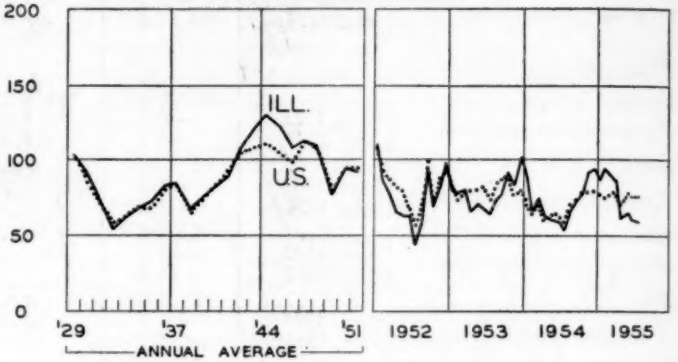

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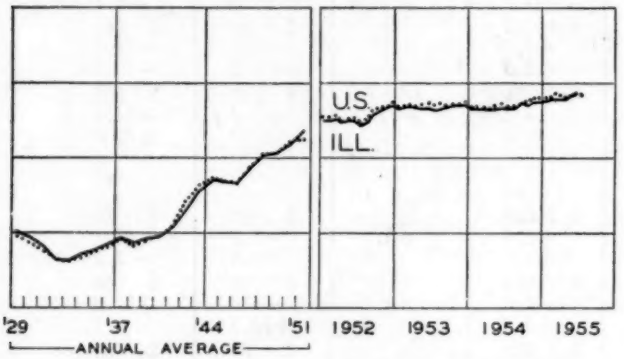
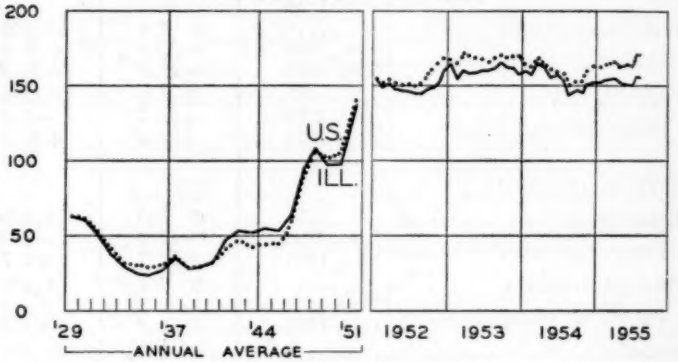
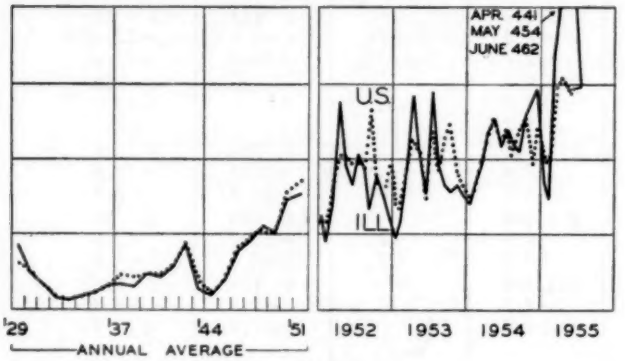


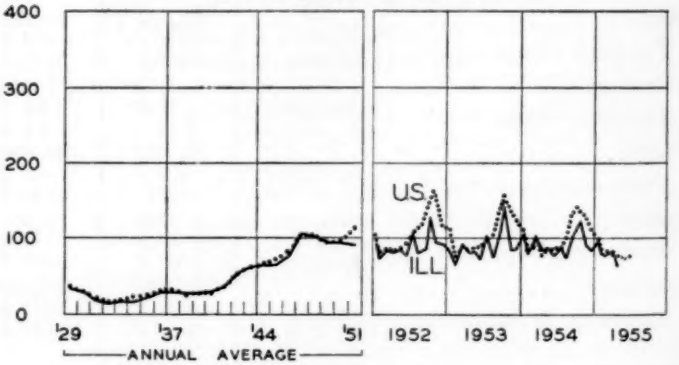
BUSINESS LOANS



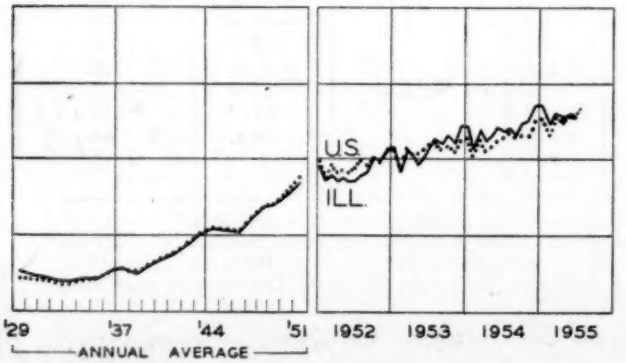
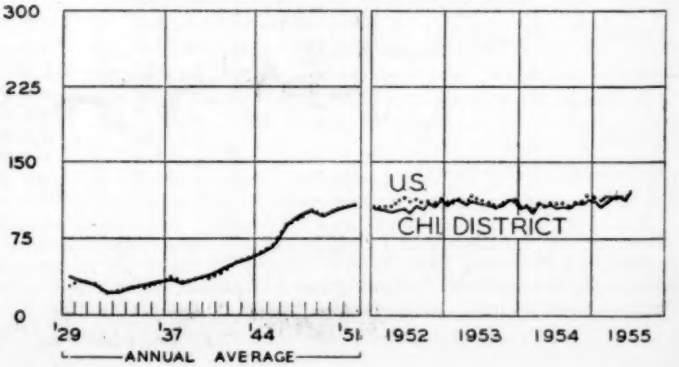
CONSTRUCTION CONTRACTS AWARDED



CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES